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A Comparative Analysis of the Effect of Political Freedom and Governance Quality on Economic Growth: Evidence From Central Asian Countries and the G20 Using a Spatial Econometric Approach*

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Abstract

Achieving economic growth and development has always been one of the fundamental goals of countries. Accordingly, this study examines the effect of political freedom and governance quality on economic growth, with a comparative focus on Central Asian countries and the G20. The analysis uses panel data for the period 2002–2022 and applies a spatial econometric model. Moran's and Geary's tests confirm the presence of spatial dependence and spillover effects among countries. The results show that in central Asian countries, political freedom has a positive and significant effect on economic growth. In contrast, corruption control has a negative effect, while regulatory quality is insignificant. In the G20 group, civil liberties and corruption control positively affect economic growth, whereas regulatory quality has a negative and significant effect. Spatial spillovers also differ across region in central Asia, civil liberties and regulatory quality produce negative spillovers, while corruption control shows a positive effect. In the G20, political rights have a negative spillover effect, while civil liberties positively affect the growth of neighboring countries. Overall, the findings reveal that the impacts of political freedom and governance quality vary across the two groups of countries. Therefore, achieving sustainable economic growth requires policies tailored to the institutional and political structures of each region, as a one-size-fits-all policy approach cannot be effective for all countries.

Keywords: Economic Growth, Political Freedom, Governance Quality, Central Asia, G20.

JEL Classification: O43, H11, C21, P16.

*. This article is derived from the first author's doctoral dissertation.

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1. Introduction

Economic growth is considered one of the most important indicators of economic development. Its improvement and enhancement have always been among the main concerns of economists and governments. Economists strive to identify the factors influencing economic growth and development in order to explain the differences among countries in this regard. The present study aims to answer the fundamental question of whether the impact of political freedom and good governance on economic growth differs between developed countries (the G20) and developing countries (Central Asia). In addition, this research examines the spatial relationship between the economic growth rates of countries and the significance of the spillover effects of political freedom and governance indicators on the economic growth of neighboring countries. The focus of this study is on analyzing the role of political rights, civil liberties, control of corruption, and regulatory quality in economic growth during the period from 2002 to 2022.

2. Theoretical Framework

A review of previous studies in the field of institutions and economic growth shows that the impact of institutional variables on economic growth has mostly been analyzed using conventional and simple econometric models, with little attention paid to the comparative analysis of these effects in countries with different levels of development. The innovation of the present study lies in the fact that, in addition to examining the direct effects of political freedom and governance quality on economic growth, it also incorporates the spatial effects resulting from the geographical proximity among countries through spatial panel models. This analysis is conducted comparatively between two groups: Central Asian countries and the G20 member countries. Two contradictory hypotheses have been proposed regarding the relationship between economic growth and political freedom. Some economists argue that political freedom improves economic performance and therefore leads to economic growth (Friedman, 1962; Sen, 1999). On the other hand, another group believes that high economic growth requires economic controls and a reduction in freedom. This view, known as the "Lee Thesis," originates from Lee Kuan Yew, the former Prime Minister of Singapore.

3. Methodology

The main objective of this study is to examine the impact of political freedom and governance quality on economic growth in Central Asian countries and selected G20 countries, using a spatial econometric model. The data for this research have been obtained from the World Bank and Freedom House for the period from 2002 to 2022. The explanatory variables used in this study include good governance

indicators, political freedom variables, and several other relevant control variables. Governance indicators were sourced from the Worldwide Governance Indicators (WGI), and political freedom indicators were extracted from Freedom House. The model examined in the present study, based on the results of the spatial estimation framework, is defined as the following Spatial Durbin Model (SDM):

$$LnGDPit = \alpha + \beta 1LnPRit + \beta 2LnCLit + \beta 3LnCCit + \beta 4LnRQit + \beta 5LnTRit + \beta 6LnPOGit + eit$$

In this model, GDP represents per capita gross domestic product as the dependent variable, indicating economic growth; PR denotes political rights, CL refers to civil liberties, CC stands for control of corruption, RQ represents regulatory quality, TR indicates trade openness, and POG denotes the population growth rate.

4. Discussion

The findings of the study confirm the existence of spatial correlation among the countries under investigation. The results indicate that in Central Asian countries, the direct effects of political rights, civil liberties, and trade openness on economic growth are positive and statistically significant. Moreover, the effect of control of corruption is negative and significant, while the effect of regulatory quality is statistically insignificant. Regarding spatial spillover effects, civil liberties and regulatory quality have negative and significant effects, whereas the spatial spillover effect of political rights is insignificant, and the spillover effect of control of corruption is positive and significant. In the G20 countries, the direct effects of civil liberties and control of corruption are positive and significant. The effect of political rights is insignificant, while the effect of regulatory quality is negative and significant. Additionally, the spatial spillover effect of political rights is negative and significant, the spillover effect of civil liberties is positive and significant, and the spillover effects of control of corruption and regulatory quality are statistically insignificant. Furthermore, the spatial spillover effects of trade openness and population growth on economic growth are negative and significant.

5. Conclusion and Suggestions

The results of this study indicate that the effects of political freedom and governance quality on economic growth differ among the countries under study. Therefore, policymakers should design different strategies to promote economic growth in accordance with the institutional conditions and level of development of each country. Accordingly, in light of the research findings, the following recommendations are suggested:

- Revision of anti-corruption policies in Central Asian countries;
- Strengthening civil liberties;

- Policy-making in accordance with the countries' level of development;
- Utilizing other governance indicators in future research, such as government effectiveness, rule of law, and political stability, to achieve more comprehensive results.

6. Ethical Considerations

6.1. Compliance with ethical guidelines

All ethical guidelines have been followed in this writing.

6.2. Funding

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6.3. Authors' Contribution

All authors have equally contributed to the writing of this article.

6.4. Conflict of Interest

The authors declare no conflict of interest.

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